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UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT

Report of the Standing Committee on Commodities on its third session

held at the Palais des Nations, Geneva,
from 31 October to 4 November 1994

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INTRODUCTION

1. The Standing Committee on Commodities held its third session at the Palais des Nations, Geneva, from 31 October to 4 November 1994. In the course of the session, the Standing Committee held four plenary meetings and a number of informal meetings.*

Opening statements

1. The representative of **Germany**, speaking on behalf of the **European Union**, regretted that the background documents had not been made available in all official languages. This handicapped the preparations of many delegations. He requested the Officer-in-Charge of UNCTAD to make the utmost effort to ensure that the situation would not recur in the future. Other delegations endorsed that statement.

2. The **Officer-in-Charge of UNCTAD** said that the present session was taking place at a time when the beginning of a recovery in the world economy had improved demand, as well as perceived demand prospects, for many industrial raw materials. The stocks of many commodities had been drawn down to historically low levels. These factors, combined with adverse weather conditions and the fact that investors were increasingly including primary commodity holdings in their portfolios, had prompted a significant increase in the nominal dollar prices of a number of commodities. However, not all commodities of export interest to developing countries had profited from this evolution. The generally positive outlook was also tempered by the fact that market sentiment might be reversed quickly; that, depending on the composition of the import basket of exporting countries, measurements in currencies other than the United States dollar might be more relevant for a number of countries; that many commodities had actually been pre-sold in contracts negotiated before the general rise in prices; and that despite this price rise the terms of trade of commodities still remained well below their levels of a decade ago.

3. He recalled that a major development in the world trade system since the Committee's second session had been the completion of the Uruguay Round of multilateral trade negotiations. He commented on the implications of the Uruguay Round for international commodity markets and on the apprehensions of many commodity-dependent developing countries regarding a possible erosion of their margins of preference as a result of the reduction in most-favoured nation tariffs. Three points were of relevance in that connection. Firstly, given the already low level of tariffs on several non-competing primary commodities (such as coffee, cocoa, tea, tropical timber and most ores and minerals in primary form), the loss of preferences was likely to be small; secondly, regarding commodities which competed with those produced in industrial countries, such as wheat, rice, sugar, beef, and vegetable oils, quotas would be replaced by "minimum access opportunities" above which prohibitive tariff quotas would apply, with the result that not much would

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* For the terms of reference of the Standing Committee on Commodities, see Trade and Development Board decision 398 (XXXVIII), annex, section B.

change for those commodities; and thirdly, that, by contrast, developing countries members of the ACP group would see an erosion of their privileged access to the European market.

4. He noted that an important problem which had not been addressed by the Uruguay Round was the existence of both tariff and non-tariff barriers preventing primary commodity exporters from achieving vertical diversification. Although tariff escalation would be reduced somewhat by most-favoured nation tariff reductions, it would not be eliminated, and the problem of non-tariff barriers would also remain. Regarding the Uruguay Round agreement on agriculture, he predicted that it would lead to reductions in agricultural subsidies and thus surplus supplies in the industrial countries, while it might also worsen the terms of trade for food importing countries. The UNCTAD secretariat intended to conduct appropriate studies on this complex issue, the results of which would be made available to the Committee in due course.

5. Referring to agenda item 3, he said that enviable economic growth and diversification had been achieved by many countries in East Asia and, to a lesser extent, South Asia, Latin America and North Africa over the last two decades. A common factor behind such strong performance and resilience was a vigorous commodity sector. The lesson of experience was that, although the provision of economic incentives was indispensable to the emergence and strength of a diversified commodity sector, the modifications of policy and institutions required for this were not cost-free. Attempts to restore and sustain balance in the budget and external accounts had often resulted in deep cuts in sectoral allocations and in the provision of essential facilities and services. In addition, deep-seated and persistent structural constraints in transport and communications, financial intermediation, marketing and storage networks and research and development, as well as in human resource development, had yet to receive due attention in many countries. The Committee might wish to focus future work on a clear delineation of the conditions which had facilitated in some countries a synergy of efforts between the government and the private sector.

6. Turning to agenda item 4, he said that most negative impacts of commodity production and trade on the environment stemmed, in one form or another, from the failure of markets to reflect fully the environmental costs and benefits of economic activity. It was thus incumbent on governments to devise mechanisms which would help to internalize such costs and benefits. In this respect, priority might be devoted to removing or reducing subsidies on inputs which had harmful environmental effects. Taxes on production or consumption activities which damaged the environment, and incentives for environment-friendly activities, would also warrant high priority. Where strict quantitative control of an activity was warranted, there was a need for regulatory instruments. Referring to linkages between the commodity sector and the environment he mentioned, firstly, that in some cases commodity production and processing had been the cause of considerable local or global environmental damage, as had been discussed by the Committee at its second session. Conversely, the commodity sector could contribute positively to the solution of various environmental problems at the local and global levels, and at the production, consumption and disposal stages. Increased utilization of products which had environmental advantages could contribute significantly to changing consumption patterns in the environmentally preferable manner agreed

upon by governments in adopting Chapter 4 of Agenda 21, at the United Nations Conference on Environment and Development. He thanked the Government of the Netherlands for its generous extrabudgetary support to UNCTAD in this area. He also thanked the Government of Norway for its extrabudgetary support for work on the principle of full cost pricing and its implementation in support of sustainable development. The Committee might wish to focus its future work on environmental issues on reviewing developments in issues identified in TD/B/CN.1/25, including an analysis of the opportunities for, and constraints to, the further use of environment-friendly products and of the implications of increased production and exports of such products on the development prospects of specific developing countries.

7. He regretted that it had not been possible to make the documents for the current session available in time in all languages. The matter was being taken up urgently and he hoped to be able to report back to the Committee during the session.

8. The spokesman for the **African Group** (Kenya) agreed with the secretariat's view, expressed in TD/B/CN.1/24, that there was no unique recipe to be followed by all countries to achieve diversification and that the support of the international community was indispensable in this respect. He stated that the lack of success of most sub-Saharan African countries in diversification resulted from the fact that the fall in both the volume and the real value of export earnings had occurred at a time when the region's debt obligations had been increasing while net financial resource flows to Africa had been decreasing in real terms, and when the negative impact of structural adjustment programmes on the provision of social services had been making itself felt. This had severely reduced Africa's ability to provide a favourable domestic environment within which meaningful diversification could be built. The domestic efforts to diversify which most African countries had started to make would continue to be jeopardized until the debt issue was addressed in a comprehensive manner. These efforts deserved the support of the international community, especially where they had been made at great social cost. He said that the issue of financial intermediation was of particular importance and urged international financial institutions to give this matter priority.

9. He noted that African countries had been constrained in identifying market opportunities for their products and that export marketing was likely to become more and more complex with the liberalization and globalization of production. He thanked donor countries, agencies and institutions for their support in this area. Regarding commodity risk management, he said that policy makers should be targeted for further information, guidance and advice. He welcomed the intended establishment of national diversification councils in African countries but stressed that care should be taken not to get bogged down in bureaucracy.

10. Domestic economic reforms would not bear fruit unless progress in the area of market access was achieved. Apart from high tariffs, which some commodities of interest to African countries faced, tariff escalation, non-tariff and technical barriers, as well as more recent measures related to labour conditions and the environment, were the main features of existing protectionism. In addition, bilateralism was still threatening the implementation of multilateral trade negotiations, especially where big powers

were concerned. He therefore urged the secretariat to carry out further analysis of the results of the Uruguay Round of multilateral trade negotiations.

11. Referring to TD/B/CN.1/25, he felt that the subject concerned was of great interest to most African countries which had seen synthetics replace their natural raw materials in the main end-uses. He endorsed the document in general and agreed that further work could be conducted with a commodity and country focus. He also urged donors to consider increasing their funding in this area.

12. The representative of the **United Republic of Tanzania** expressed the view that the unbalanced international trading system had a greater impact on development efforts than internal constraints, and suggested that new areas be identified in which the Common Fund for Commodities could assist developing countries in mitigating the difficulties in such an environment. Another significant constraint to development was the heavy debt burden of commodity-dependent LDCs, which in 1992 had represented about 60 per cent of their combined gross domestic product. Regarding diversification and the competitiveness of natural products with environmental advantages, he reminded the Committee that vertical diversification was closely associated with the transfer of technology, particularly for the processing of finished and semi-finished products and he noted with regret the continuing erosion of the trading opportunities for developing countries in that area. The potential of biotechnology to replace certain agricultural products significant to developing countries, for instance by the production of synthetic cocoa butter, vanilla flavouring and food sweeteners, was devastating, and called for urgent action. It was time for UNCTAD to undertake serious studies on the matter.

13. Reminding the Committee of the long-term depressed state of commodity prices and the uncertainty of their modest recovery, the representative of **Japan** said that the most effective way of stabilizing prices and supply of commodities was by maximizing market transparency through information exchange on the one hand, and production volume adjustment on the other. At the same time, developing countries should make efforts to promote exports of high value added products, to carry out structural adjustment programmes, to explore new markets, including South-South trade, and to investigate market and investment opportunities in domestic markets. Recalling the serious constraints facing developing countries, including the debt burden and the shortage of capital and appropriate technology, he urged the international community to provide financial and technical assistance, both bilateral and multilateral, for example under the auspices of the IMF, the World Bank and the Common Fund.

14. The representative of **Canada** expressed support for the work of the secretariat in three areas, namely, the improvement of the functioning of commodity markets, in which connection the work of the ad hoc groups of experts on commodity exchanges and on risk management in commodity trade deserved special mention; sustainable development; and diversification.

15. Agreeing with the delegation of the United Republic of Tanzania, the representative of **Indonesia** said that the main problem of commodity trade lay in the unbalanced structure of the international market, and he cited

increased supply from developed countries as the major cause of commodity price falls. The diversification efforts undertaken by many developing countries, including his own, should be matched by a reversal of oversupply in the international markets. Calling on the Common Fund and UNCTAD to provide assistance in diversification policies and measures, he stressed that there was an information gap in technology advancement which often handicapped small and medium-sized enterprises in the developing countries. The internalization of environmental costs was a potentially effective way of diminishing the price disadvantage of environmentally preferable products. Further discussions should focus on the means by which the competitiveness of natural products with environmental advantages could be improved. In closing, he recalled the statement made by the representative of the Common Fund on the occasion of the 30th anniversary of UNCTAD, that commodity prices which provided just and remunerative returns for commodity producers and exporters were the real, sustainable, lasting poverty alleviators.

16. The representative of **Germany**, speaking on behalf of the **European Union**, recalled that prices on world commodity markets had been highly volatile. The fact that at the beginning of the 1990s commodity prices in real terms had fallen to their lowest level of this century could be attributed partly to structural developments through which the efficiency of commodity production had improved significantly, while the relative weight of commodities as inputs for many manufactured goods had tended to fall, and partly to the recession which had affected the industrialized countries in the early 1990s. The reasons for the significant rise in overall commodity prices during the first nine months of 1994, by contrast, could be found in the higher levels of demand for commodities, which were associated with greatly improved growth in the world economy as a whole, as well as in a number of commodity-specific factors.

17. Regarding document TD/B/CN.1/24, he endorsed the conclusion that diversification policy must be adapted to the specific conditions and needs of each country and that diversification should be considered as one aspect of a policy approach to be pursued in the light of a country's overall development possibilities and its comparative advantage. After all, development was a process rather than a single step. He also endorsed the conclusions of the document that a strong commodity sector was a good basis for export diversification and that the disappointing performance of many African countries in terms of diversification might be attributed to problems on the supply side and a lack of competitiveness. He suggested that the role of research and development could gain importance as a result of environmental considerations. Emphasis could be placed on the development and commercialization of indigenous resources and knowledge.

18. He considered that the section of the document devoted to market opportunities was most valuable, given that improved marketing was undoubtedly an avenue for many developing countries to improve their opportunities for exports. In this context, he noted the need for improved ability to make use of modern marketing techniques and access to trade-related information. Regarding the latter, he felt that UNCTAD's work in the field of trade efficiency was making a valuable contribution.

19. With respect to support for diversification provided by the international community, he mentioned that several institutions had assisted developing countries in this field and he described the assistance provided by the various institutions of the European Union.

20. He commended the secretariat on the preparation of document TD/B/CN.1/25, which provided a valuable overview of potential developments through which the competitiveness of natural products with environmental advantages could be improved. He added that, for a detailed review of prospects for individual products, more specialized meetings might be a better forum than the Standing Committee on Commodities. He suggested that international commodity bodies should devote greater attention to environmental issues. The life cycle analysis of jute carried out at the request of the International Jute Organization was a laudable example in this regard.

21. Market forces, assisted by growing consumer awareness of the advantages of environment-friendly products, would be a major source of developments in the area of the environment. Moreover, fiscal and pricing measures to encourage the internalization of environmental costs could result in significant changes in patterns of consumption. He therefore suggested that UNCTAD carry out a study on the desirability and feasibility of providing incentives in developing countries to stimulate greater attention to environmental issues and possible environmental advantages.

22. Whereas the suggestions contained in part IV of the document appeared rather general and would need to be examined on a case-by-case basis, he agreed that improved information about the qualities of natural products would be valuable and that effective marketing was essential. He suggested that the Committee keep developments concerning the issues identified in the document under review.

23. The representative of the **United Nations Food and Agriculture Organization** (FAO) informed the Committee of his organization's views on agenda items 3 and 4. The improvement of market opportunities for commodities was a standing item in the deliberations of FAO's 11 intergovernmental commodity groups. The current revision of FAO's supply, demand and trade projections for agricultural commodities to the year 2000 to assess the impact of the Uruguay Round of multilateral trade negotiations was also expected to shed more light on the future market opportunities for agricultural commodities of the developing countries. He drew the Committee's attention to FAO's contribution to the efforts of the international community to promote commodity diversification. In particular, he mentioned the analysis that had been undertaken for the Secretary-General of the United Nations and that had led to a proposal for a Diversification Facility for Africa's Commodities. Discussions on the proposal, which involved the creation of national diversification councils comprising the government, the private sector, the scientific community and multilateral organizations, were still going on.

24. He commended UNCTAD on document TD/B/CN.1/25 and expressed his satisfaction that certain aspects of this topic, on which FAO's Intergovernmental Group on Hard Fibres had initiated work as far back as 1988, had now attracted broader attention. The dilemma of clearly establishing which product was more environment-friendly than another was brought out well in the document. A case in point was that of some natural fibres, where it

was difficult to establish whether the environmental damage of natural products, if measured over the whole life cycle, was less than that of competing synthetic products. The UNCTAD report had concluded that relatively simple technical solutions existed to counter the environmental damage caused in the production and processing of such fibres. Such measures required considerable financial assistance, however, to enable developing countries to internalize their environmental externalities in order to make their products environmentally more competitive.

25. Pointing out the interrelationship between the two substantive items on the agenda, the representative of **Norway** said that improved market conditions for environmentally friendly products might well provide new diversification opportunities for developing countries. The fact that the diversification issue had been a prominent feature of the Committee's work for several years attested to the dependence of many developing countries on a few commodities for their export earnings. Given that there was no universally applicable recipe for reducing excessive commodity dependence, diversification should be based on market- and commodity-specific assessments, and appropriate marketing policies should be applied to complement competitive production processes. Market access was a crucial aspect of diversification. UNCTAD, through its Ad Hoc Working Group on Trading Opportunities and its Trade Points, as well as ITC, could provide developing countries with useful trade-related information in that connection. Regarding the competitiveness of natural products with environmental advantages, he suggested that intensified promotion and awareness-building would be effective short-term measures to introduce the products to a wider public. At the same time, efforts should be made to overcome supply problems which often hampered the marketing flow of these products. Were it not for faulty production processes, many other products would qualify as being environment-friendly; he called for international commodity bodies to study the environmental aspects of their specific commodities. He concluded by saying that increased demand for environment-friendly products would lead to increased income and poverty alleviation, two prerequisites for reducing environmental degradation and attaining sustainable development in developing countries.

26. Referring to agenda item 3, the representative of **Argentina** observed that the issue of diversification was now being viewed in the light of the outcome of the Uruguay Round. He believed that the secretariat should undertake a more detailed analysis of this question. The creation of greater opportunities for diversification should in many cases be set in the macroeconomic context. In this connection, he recalled that, at the second session, the Latin American and Caribbean Group had supported the initiative aimed at strengthening the budgetary resources for technical cooperation, and he asked what progress had been made in this direction.

27. Turning to item 4, he considered that the promotion of organic food products could help the developing countries to improve their competitive position in the world market and reinforce sustainable patterns of production. It was essential to identify accurately the advantages and disadvantages at the different stages of the life cycle of a product. His delegation therefore supported the proposal made in paragraph 107 (a) of TD/B/CN.1/25 and wished to see the secretariat undertaking work on this aspect. Organically grown products had an important role to play, but it was important to ensure that this form of production was based on the endowment of natural resources -

where developing countries might have an advantage - and not on subsidization policies. He noted with interest the proposal for a database to promote the marketing of such products in the developed countries (ibid., para. 114) and urged the secretariat to refine the details of this initiative.

28. As for the twin themes of price competitiveness and government regulations, he referred in particular to paragraphs 100 (a) and 116 (a) of TD/B/CN.1/25 and pointed out that subsidies that were converted into negative externalities not only affected the local environment through overexploitation but also transferred their harmful impact to other areas through the operation of the price mechanism. The result was that developing countries were compelled to step up their production to maintain the level of income derived from exports that were being dislodged from their natural markets by the subsidized products of their developed competitors.

29. Finally, he expressed support for the work of the expert meeting on risk management held during the previous week, which had underlined the need for developing countries to better understand and use the relevant mechanisms to their advantage.

30. Noting that 115 developing countries still depended on primary commodities for over 50 per cent of their total exports, according to information published in the recent UNCTAD Statistical Pocket Book, the representative of **China** drew the conclusion that for the majority of developing countries export earnings of commodities remained both one of the important financial sources and a significant condition for their economic development. Despite the recent price recovery, however, prices for certain commodities were continuing to decline, and the Uruguay Round did not fully take into account the special interests of developing countries, especially in terms of tariff and non-tariff barriers. In view of the above, the work of the current session had real significance. Endorsing the view that there was no unique recipe for diversification, he said that countries should base their diversification programmes on their own conditions, and this effort should be supported by the international community. China was establishing a socialist market economy in which the market mechanism would play a basic role in resource distribution under the macro-control of the State. The share of commodities in China's exports was declining in favour of manufactured and semi-manufactured goods, but commodities still accounted for a large part of its foreign exchange earnings. Experience had shown that, in order to solve the issues of export diversification and market opportunities of developing countries, not only national policies suited to each country, but also favourable international policies were needed. In the globalization of the world economy, strengthening of South-North cooperation was in keeping with the course of history and a necessity for economic revitalization. UNCTAD should play a positive role in that respect, as it had done in the past.

31. Illustrating the pitfalls of excessive commodity dependence, the representative of the **Philippines** mentioned his own country's experience in the wake of a massive drop in sugar prices. There was definitely a linkage between diversification and economic growth, and the courses of action recommended by the secretariat were the minimum the international community could do to support diversification. The secretariat document on improving the markets for natural products with environmental advantages was provocative and informative, and should be given the widest dissemination. The exchange

of experience in the development of environment-friendly products would be helpful. UNCTAD had an important role to play in raising the consciousness of producers and consumers in both developed and developing countries, of the potentials of developing countries with regard to environment-friendly products.

32. The representative of **Switzerland** noted that, although it was obvious that a better diversified economy was less vulnerable to external shocks, achieving export diversification was a rather long and complex process. Historic as well as more recent examples suggested that a strong and competitive agricultural sector could generate economic growth, which was a necessary, although not sufficient, condition for diversification to succeed. Developing countries should therefore strive to improve the competitiveness of their commodity sector. He stressed that both the government and the private sector had an important role to play in diversification and development. The government should provide a legal and macroeconomic framework and assume responsibilities in the development of the physical infrastructure and human capital conducive to private sector activities. Switzerland had decided to reinforce its cooperation with UNCTAD and the World Bank in the area of commodity risk management. He welcomed the exchange of experience in this area that had taken place at the meeting of the Ad Hoc Group of Experts on Risk Management in Commodity Trade, in particular with the experts present from the private sector, and he encouraged UNCTAD to continue, within existing financial resources, its work on innovative methods of making the commodity sector a contributing factor in sustainable economic development.

33. While some commodities might have intrinsic environmental advantages over others, the production and processing methods ultimately determined the environment-friendliness of a commodity. Research should therefore be focused on these methods. The developing countries' export potential in the commodities covered in the document was another subject of concern. In the area of biofuels, for example, some OECD countries were already developing programmes either to utilize agricultural surpluses as fuel or to use fallow land to grow the necessary crops. There could be some potential for niche products in cases where they could overcome difficulties of competitiveness. Eco-labelling was very important as it allowed consumers to recognize environment-friendly products for which they might be willing to pay a premium.

34. The representative of **Jamaica** supported the statement made by the representative of Argentina. Regarding agenda item 3, she said that Jamaica was one of the many developing countries which had not been able to achieve sustainable diversification. This was primarily due to a lack of adequate surplus resources. There was a need for additional financial support, and she called on the international community, and especially the international financial institutions, to increase their efforts in providing assistance in more meaningful terms in areas such as debt relief. There was also a need for retraining and for alternative use of resources if diversification efforts were to succeed. Farmers and small landholders needed to be convinced that switching production to a new crop would at least make them no worse off than before. Market access conditions were therefore crucial.

35. With regard to the results of the Uruguay Round of multilateral trade negotiations, she noted with concern that ACP preference-receiving countries

would face an erosion of their preference margins in the European market in respect of commodities which, for some of these countries, were a major source of export earnings. Unless these countries became more efficient producers, they would face the grim prospect of being forced out of their traditional export markets. UNCTAD should assist in carrying out research on how affected exporters and producers could remain competitive. Despite progress, developed countries should reduce further the remaining tariff and non-tariff barriers. She also suggested that UNCTAD continue its assistance to developing countries which faced the uncertainty of volatile commodity prices and the threat that synthetics and biotechnology might entirely remove them from the market-place.

Chapter I

ANALYSIS OF WAYS AND MEANS TO IMPROVE MARKET OPPORTUNITIES FOR COMMODITIES IN THE MEDIUM TERM, WITH EMPHASIS ON EXAMINATION OF THE BEST WAYS OF ACHIEVING DIVERSIFICATION, TAKING INTO ACCOUNT COMPETITIVENESS, MARKET TRENDS AND OPPORTUNITIES

(Agenda item 3)

37. For its consideration of this item, the Standing Committee had before it the following documentation:

> "Improving market opportunities for commodities in the medium term, with emphasis on achieving diversification" - report by the UNCTAD secretariat (TD/B/CN.1/24).

Action by the Standing Committee

38. At its 13th (closing) meeting, on 4 November 1994, the Standing Committee adopted the draft agreed conclusions submitted by the Chairman and contained in TD/B/CN.1/L.8. (For the agreed conclusions, see annex I below.)

Chapter II

IDENTIFICATION OF MEANS BY WHICH THE COMPETITIVENESS OF NATURAL PRODUCTS WITH ENVIRONMENTAL ADVANTAGES COULD BE IMPROVED

(Agenda item 4)

39. For its consideration of this item, the Standing Committee had before it the following documentation:

> "Reducing the environmental stress of consumption without affecting consumer satisfaction" - report by the UNCTAD secretariat (TD/B/CN.1/25)

Action by the Standing Committee

40. At its 13th (closing) meeting, on 4 November 1994, the Standing Committee adopted the draft agreed conclusions submitted by the Chairman and contained in TD/B/CN.1/L.8. (For the agreed conclusions, see annex I below.)

Chapter III

REPORTS OF THE SUBSIDIARY ORGANS OF THE STANDING COMMITTEE*

(Agenda item 5)

41. Under this agenda item, the Standing Committee had before it the following reports of its subsidiary bodies:

- Report of the Intergovernmental Group of Experts on Tungsten on its second session (8-10 November 1993) (TD/B/CN.1/18 - TD/B/CN.1/TUNGSTEN/8)

- Report of the Third Ad Hoc Review Meeting on Bauxite (2-3 May 1994) (TD/B/CN.1/20 - TD/B/CN.1/RM/BAUXITE/9).

Action by the Standing Committee

42. At its 13th (closing) meeting, on 4 November 1994, the Standing Committee took note of the reports of the subsidiary bodies mentioned in paragraph 41 above and endorsed the recommendation of the Third Ad Hoc Review Meeting on Bauxite with regard to its next (fourth) meeting as contained in paragraph 17 of the Meeting's report.

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* For the action by the Standing Committee concerning the reports of the Intergovernmental Group of Experts on Iron Ore on its third session and of the Ad Hoc Group of Experts on Risk Management in Commodity Trade, see chapter IV.E below.

Chapter IV

ORGANIZATIONAL MATTERS

A. Opening of the session

43. The third session of the Standing Committee on Commodities was opened on 31 October 1994 by Mr. S. Jamaluddin (Bangladesh), one of the Vice-Chairmen of the Standing Committee at its second session.

B. Election of Officers

(Agenda item 1)

44. At its 10th (opening) plenary meeting, on 31 October 1994, the Standing Committee on Commodities elected its officers as follows:

Chairperson:	Ms. L. Wiedmer	(Switzerland)
Vice-Chairpersons:	Mr. J.J. Yambao	(Philippines)
	Mr. M. Delelegn Arega	(Ethiopia)
	Mr. H. Aschentrupp	(Mexico)
	Mr. R. Rohrlach	(Germany)
	Mr. Y. Afanassiev	(Russian Federation)
Rapporteur:	Mr. S. Sia Bi	(Côte d'Ivoire)

C. Adoption of the agenda and organization of work

(Agenda item 2)

45. At the same meeting, the Standing Committee adopted the provisional agenda circulated in TD/B/CN.1/23. The agenda for the third session therefore read as follows:

1. Election of officers

2. Adoption of the agenda and organization of work

3. Analysis of ways and means to improve market opportunities for commodities in the medium term, with emphasis on examination of the best ways of achieving diversification, taking into account competitiveness, market trends and opportunities

4. Identification of means by which the competitiveness of natural products with environmental advantages could be improved*

5. Reports of the subsidiary organs of the Standing Committee

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* It was agreed to avoid duplication of efforts.

6. Provisional agenda for the fourth session of the Standing Committee

7. Other business

8. Adoption of the report of the Standing Committee to the Trade and Development Board.

D. Provisional agenda for the fourth session of the Standing Committee

(Agenda item 6)

46. At its 13th (closing) meeting, on 4 November 1994, the Standing Committee approved the draft provisional agenda for it fourth session, as set forth in TD/B/CN.1/L.9. (For the provisional agenda, see annex II below.)

E. Other business

(Agenda item 7)

47. Under this agenda item, the Standing Committee was due to discuss the reports of the Intergovernmental Group of Experts on Iron Ore on its third session (24-26 October 1994)* and of the Ad Hoc Group of Experts on Risk Management in Commodity Trade (26-28 October 1994)**. For technical reasons, these reports were not available for examination by the Committee but oral reports were made. The Committee took note of the oral reports.

F. Adoption of the report of the Standing Committee to the Trade and Development Board

(Agenda item 8)

48. At its closing meeting, the Standing Committee adopted the draft report on its third session (TD/B/CN.1/L.7) and authorized the Rapporteur to complete the final report as appropriate.

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* The final report was subsequently issued as document TD/B/CN.1.21 - TD/B/CN.1/IRON ORE/15.

** The final report was subsequently issued as document TD/B/CN.1/22-TD/B/CN.1/GE.1/4.

ANNEXES

Annex I

AGREED CONCLUSIONS ADOPTED BY THE STANDING COMMITTEE ON AGENDA ITEMS 3, 4, 5 AND 7*

1. The Standing Committee on Commodities noted that the prices of many commodities, after having fallen in previous years to historical lows in real terms, had risen sharply in nominal terms in 1994, driven by improved demand, reduced stock overhang, investor interest and currency movements. It nevertheless remained the case that this price development was uneven, the prices of some commodities stagnating, whilst those of others actually declined. Moreover, viewed in real terms, prices for certain commodities were still lower than they had been in the previous two decades.

2. The Committee looked forward to the ratification of the agreements of the Uruguay Round and its early entry into force, so as to trigger the benefits which could be expected to accrue to all countries, but especially the developing countries, from strengthened rules and institutions and from improved conditions of market access. Special mention had been made of the Uruguay Round agreement on agriculture, which is of particular importance in the context of commodities. It would lead to reductions in agricultural subsidies and, thus, surplus supplies in the industrial countries, but might also increase the costs of imports for net food importing developing countries on a temporary basis.

3. The Committee welcomed the agreed phased dismantling of the Multi-Fibre Agreement system as a result of the Uruguay Round, which would be highly beneficial to efficient developing country producers. It observed that tariff escalation would be reduced somewhat by the m.f.n. tariff reductions agreed in the Round, but noted that there remained problems created by non-tariff barriers which hindered the efforts of primary commodity exporters to diversify vertically into the export of value-added products.

4. The Committee examined in depth the linkages between competitiveness and diversification. Statistical analysis presented by the secretariat showed that while some generalizations could be made, policy approaches always had to be adapted to suit the particular circumstances of each country. Diversification could greatly contribute to overall economic growth, particularly when undertaken in a manner appropriate to the needs of the country. Diversification should be considered as one important aspect of a policy approach to be pursued in the light of overall development possibilities and considerations of comparative advantage.

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* Adopted at the 13th (closing) meeting of the standing Committee, on 4 November 1994.

5. The Committee noted with concern that most of the countries which had very high levels of dependence on three commodities 15 or more years ago, remained highly dependent. These countries in most cases were achieving lower than average growth rates, and were also for the most part countries with low GNP per capita levels. A strong commodity sector was a good basis for export diversification, both vertical and horizontal, and problems on the supply side and a lack of competitiveness in the commodity sector had been important impediments to the economic performance of many commodity-exporting countries, particularly in Africa, in recent years.

6. The Committee was of the view that appropriate macroeconomic reforms, trade policy reforms, appropriate exchange rate policies, facilitation of access to foreign exchange for imported inputs, creation of a favourable investment climate, development of the domestic financial sector, efforts to improve infrastructure, export promotion measures, in particular South-South trade, encouraging research and development and human capital formation were all priority areas for public policy in commodity-dependent countries. The Committee was also of the view that liberalized market access, including reduction of tariff escalation, financial and technical support from the international community and overcoming and removing barriers to exit were necessary for the success of diversification efforts.

7. The Committee observed that improved marketing would also be an important tool for improving the export possibilities of commodity-exporting developing countries. Ability to make use of modern marketing instruments, improvement of access to trade-related information, commercial strength, presentation of products and effective export promotion were all necessary elements of a transparent marketing policy, as they could both open up new market opportunities and produce gains in terms of prices obtained. UNCTAD's work in the field of trade efficiency following the recent United Nations International Symposium on Trade Efficiency, in Columbus Ohio, would also be of help to developing countries in this regard. In this context, the division of labour among the various institutions providing trade-related technical assistance, including UNCTAD, GATT/WTO and International Trade Centre UNCTAD/GATT, should be reviewed with the objective of fully utilizing existing strengths, increasing the combined impact and avoiding unnecessary overlap.

8. The Committee observed that there had been examples where commodity production and processing had contributed to considerable local or global environmental damage. It was in the interest of both producers and consumers to identify policies and measures which could mitigate this damage. Commodity production could also, however, provide significant environmental services when carried out sustainably, for example by limiting erosion, acting as a carbon sink and reducing environmental stress by supplying products which have environmental advantages. Moreover, improved competitiveness and increased utilization of environmentally friendlier products could also help in increasing foreign exchange resources of developing countries from which many such products originate, be it through increasing exports or via the replacement of imports. Further work on these issues was necessary in UNCTAD and the secretariat should continue its excellent analysis in this area. In so doing, emphasis should be placed on theoretical and practical work regarding the internalization of environmental externalities, with particular focus on the impact on the environment of main distortions in price formation

mechanisms, in particular the impact of subsidies, and on experimental studies for some specific products where internalization would appear to be most readily addressed.

9. The Committee reiterated the importance of the agreements reached at the UNCED conference in Rio de Janeiro, particularly as regarded the changing of consumption patterns (chapter 4 of Agenda 21), and considered that market forces, assisted by growing consumer awareness of the advantages of environmentally friendly products, were likely to generate increased demand for such products over the next few years. This would be particularly the case to the extent that consumers were willing to pay a premium for products with environmental advantages. In cases where such demand shifts did not occur spontaneously, it could be expected that fiscal and pricing measures to encourage the internalization of environmental costs could result in significant changes in patterns of consumption.

10. The Committee considered that improved information about the environmental implications of production, reasonable logistical aspects in transportation, consumption and disposal of products as well as the links between economic policies and the environment would be of value and requested the UNCTAD secretariat to intensify its research in these areas. Increased efforts to stimulate awareness of the environmental advantages of products needed to be undertaken, and effective marketing would be essential. The Committee agreed that, in the light of further research, governments should consider promoting policies and measures to internalize environmental externalities and that cooperation on research activities to spread costs also be promoted. In this context, it was recognized that internalization had to be undertaken collectively in those sectors where negative externalities appear.

11. The Committee agreed that the international commodity bodies (ICBs) could play a positive role in promoting more attention to environmental issues and appealed to these bodies to take account of the accepted commitments with regard to sustainable development in the framework of UNCTAD (Cartagena) and UNCED (Rio) when developing their courses of action; particularly important in this respect was the application of life cycle analysis to their specific commodities. The UNCTAD secretariat was also urged to undertake work to improve the applicability of life cycle analysis to commodity issues. The Common Fund for Commodities and other international financial institutions had a role to play in providing assistance to developing countries in the development and promotion of environmentally preferable products and ICBs were encouraged to submit projects in this area to the Fund for financing.

12. The Committee considered that there was considerable scope for financial and technical cooperation between developed and developing countries for improving the environmental advantages of natural products. Technical cooperation among developing countries also offered important opportunities in this respect. The secretariat was requested to examine with FAO, International Trade Centre UNCTAD/GATT and other relevant international organizations the feasibility of the establishment of a grouping of public and private sector entrepreneurs and commercially oriented research and development scientists, academicians and technologists to work towards the development and transfer of innovative technologies for environmentally sound commodity production.

13. The Committee, having heard a report by the Chairman of the Group of Experts on Risk Management, commended the Chairman for his presentation, and expressed its thanks to the Experts, who had devoted their time and energy to make the expert group meeting a success. The Committee noted with appreciation the policy recommendations made by the Group of Experts, noting that commodity price risk management was likely to be of increasing importance to commodity producing and exporting countries over the next several years. Wider reliance on modern risk management techniques and instruments among developing countries would necessarily be conditional on the availability of necessary policy, institutional, infrastructure, and human resource requirements. The Committee accordingly requested the UNCTAD secretariat to disseminate widely the very useful information it had assembled on the subject, through follow-up technical assistance activities or other appropriate modalities so that local awareness and understanding of these techniques and instruments could be enhanced. The Committee also urged the UNCTAD secretariat to continue its work on commodity risk management, particularly in regard to fundamental policy issues and institution-building in the developing countries and countries in transition.

Annex II

PROVISIONAL AGENDA FOR THE FOURTH SESSION OF THE STANDING COMMITTEE

1. Election of officers

2. Adoption of the agenda and organization of work

3. Examination of the manner in which prices of natural commodities and their synthetic competitors could reflect environmental costs, taking into account policies relating to the use and management of natural resources and sustainable development

4. Analysis of the evolution of prices and trade of commodities to be expected in the light of the results of the Uruguay Round, with particular emphasis or their implications for developing countries, including their diversification prospects

5. Reports of the subsidiary organs of the Standing Committee

6. Review of the work programme of the Standing Committee with special emphasis on the preparations for UNCTAD IX

7. Other business

8. Adoption of the report of the Standing Committee to the Trade and Development Board.

Annex III

ATTENDANCE*

1. The following States members of UNCTAD, members of the Standing Committee, were represented at the session:

Algeria
Argentina
Austria
Bangladesh
Belgium
Bolivia
Canada
China
Colombia
Côte d'Ivoire
Cuba
Czech Republic
Denmark
Ecuador
Ethiopia
Finland
France
Germany
Greece
Indonesia
Ireland
Italy
Jamaica
Japan
Kenya
Lebanon
Libyan Arab Jamahiriya
Madagascar
Malaysia
Mexico
Nepal
Netherlands
Norway
Pakistan
Paraguay
Peru
Philippines
Portugal
Republic of Korea
Russian Federation
Saudi Arabia
Slovakia
South Africa
Spain
Sri Lanka
Sudan
Sweden
Switzerland
Thailand
Tunisia
Turkey
United Kingdom of Great Britain and Northern Ireland
United Republic of Tanzania
United States of America
Venezuela
Zambia

2. The following other States members of UNCTAD, not members of the Standing Committee, were represented at the session:

Angola
Cameroon
Costa Rica
Mauritius
Oman
Qatar

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* For the list of participants, see TD/B/CN.1/INF.4.

3. The International Trade Centre UNCTAD/GATT was represented at the session.

4. The following specialized and related agencies were represented at the session:

Food and Agriculture Organization of the United Nations
International Monetary Fund
United Nations Industrial Development Organization

The General Agreement on Tariffs and Trade was also represented at the session.

5. The following intergovernmental organizations were represented at the session:

Common Fund for Commodities
European Community
League of Arab States
Organization of African Unity

6. The following non-governmental organization was represented at the session:

General Category

World Federation of United Nations Associations

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